

Program D: Investment Management

Program Authorization on: La. Constitution, Article IV, Section 9; R.S. 36:761(C); R.S. 49:307; R.S. 49:321; R.S. 49:327(A)(B)(d); R.S. 17:3803

PROGRAM DESCRIPTION

The mission of the Investment Management Program (organizationally expressed as the Office of State Depository Control and Investments) is to invest the funds deposited in the State Treasury in a prudent manner, consistent with the cash needs of the state and the directives of the constitution and statutes, and within the guidelines and requirements of various funds under management. This involves:

- The authorized investments; maturity; and interest rates of the state's General Fund. The Treasury is responsible to provide a reasonable return on the investment of the state's funds while, at the same time, fostering the economy of the state by maintaining a reasonable proportion of funds on deposit with in-state financial institutions.
- The investment authority of the state treasurer in managing the Louisiana Education Quality Trust Fund (LEQTF) (also known as the 8g Fund). The Treasury is responsible for growing the principal portion of the Permanent Fund and providing a stable flow of income from the investments to the LEQTF beneficiaries, the Board of Elementary and Secondary Education and the Board of Regents.
- The security required for deposit of state funds. The Treasury has the responsibility to determine if the types and amounts of securities that collateralize the deposits of state funds meet all requirements as statutorily determined.

The goal of the Investment Management Program is to invest monies deposited in the State Treasury in a prudent manner, consistent with the daily cash needs of the state, the directives of the Louisiana Constitution and the state legislature, and within the guidelines and requirements of the various funds under management.

The Investment Management Program maintains several investment portfolios (each with differing characteristics) that, in combination, average \$2.25 billion, and manages approximately \$365 million in certificates of deposit in financial institutions throughout the state.

OBJECTIVES AND PERFORMANCE INDICATORS

Unless otherwise indicated, all objectives are to be accomplished during or by the end of FY 2000-2001. Performance indicators are made up of two parts: name and value. The indicator name describes what is being measured. The indicator value is the numeric value or level achieved within a given measurement period. For budgeting purposes, performance indicator values are shown for the prior fiscal year, the current fiscal year, and alternative funding scenarios (continuation budget level and Executive Budget recommendation level) for the ensuing fiscal year (the fiscal year of the budget document).

The objectives and performance indicators that appear below are associated with program funding in the Base Executive Budget for FY 2000-01. Specific information on program funding is presented in the financial sections that follow performance tables.

1. (KEY) To increase the annual yield of the General Fund by 5-10 basis points.

Strategic Link: This operational objective, which will be carried out within guidelines of LRS 49:327, correlates to Strategic Objective I.1 for the Investment Program in the department's strategic plan. This objective represents the baseline of investing in a prudent manner consistent with the cash needs of the state, and represents the mandatory daily oversight and control required to provide a reasonable return on the investments in the State General Fund. The attainment of this objective will ensure a stable, dependable flow of investment returns from the investment of the state's funds.

LEVEL	PERFORMANCE INDICATOR NAME	PERFORMANCE INDICATOR VALUES					
		YEAREND PERFORMANCE STANDARD FY 1998-1999	ACTUAL YEAREND PERFORMANCE FY 1998-1999	ACT 10 PERFORMANCE STANDARD FY 1999-2000	EXISTING PERFORMANCE STANDARD FY 1999-2000	AT CONTINUATION BUDGET LEVEL FY 2000-2001	AT RECOMMENDED BUDGET LEVEL FY 2000-2001
K	Fiscal yearend annual yield on General Fund investments (expressed as a percentage) ¹	Not applicable ²	5.9%	5.8% ³	5.8% ³	5.7%	5.7%

¹ This indicator is expressed as a percentage yield/return using actual FY 1997-98 as the baseline. The 30-day U.S. Treasury bill is used as the cash basis benchmark. Example:

Benchmark - 30-day Treasury bill return	=	4.9%	
General Fund return	=	5.7%	
Difference	=	0.8%	= 80 basis points

² This indicator was a new performance indicator in FY 1998-99. It did not appear under Act 19 of 1998 and had no FY 1998-99 performance standard.

³ Market rates have provided additional yield on the portfolio. The program currently projects a fiscal yearend annual yield of 6.0%.

GENERAL PERFORMANCE INFORMATION: STATE GENERAL FUND INVESTMENTS

PERFORMANCE INDICATOR	PRIOR YEAR ACTUAL FY 1994-95	PRIOR YEAR ACTUAL FY 1995-96	PRIOR YEAR ACTUAL FY 1996-97	PRIOR YEAR ACTUAL FY 1997-98	PRIOR YEAR ACTUAL FY 1998-99
Fiscal yearend annual yield return on State General Fund investments (expressed as a total return percentage)	5.5%	5.0%	5.4%	5.7%	5.9%
State General Fund investment income (in \$ millions)	\$93.3	\$90.5	\$117.2	\$138.5	\$134.7

2. (KEY) To increase the annual investment return of the Louisiana Education Quality Trust Fund (LEQTF) on a year-to-year comparative basis to grow the fund to \$920 million.

Strategic Link: This operational objective is an incremental step toward accomplishment of the program's Strategic Objective I.2: Increase the annual investment return of the Louisiana Education Quality Trust Fund (LEQTF) on a year-to-year comparative basis to grow the Permanent Fund to \$1.2 billion by the year 2003, in accordance with LRS 17:38-1 A(1). This objective represents the active daily management of both the stock and bond portions of the LEQTF portfolio and provides flexibility in managing the investments within guidelines of the asset allocation model. The attainment of this objective will ensure a higher degree of success in obtaining the growth of the LEQTF Permanent Fund while, at the same time, providing a stable dependable stream of annual income to the fund's beneficiaries. Active management of both bond and equity investments ensures the continuous review of assets in relationship to prevailing market conditions.

LEVEL	PERFORMANCE INDICATOR NAME	PERFORMANCE INDICATOR VALUES					
		YEAREND PERFORMANCE STANDARD FY 1998-1999	ACTUAL YEAREND PERFORMANCE FY 1998-1999	ACT 10 PERFORMANCE STANDARD FY 1999-2000	EXISTING PERFORMANCE STANDARD FY 1999-2000	AT CONTINUATION BUDGET LEVEL FY 2000-2001	AT RECOMMENDED BUDGET LEVEL FY 2000-2001
K	Fiscal yearend annual total return on LEQTF investments (expressed as a percentage) ¹	Not applicable ²	4.8%	9.0%	9.0%	5.0%	5.0%
K	LEQTF Permanent Fund fair market value (in \$ millions) ¹	Not applicable ²	\$895.0	\$920.0	\$920.0	\$920.0	\$920.0

¹ For purposes of this indicator, "Permanent Fund" is defined as the LEQTF Fund total portfolio , including Support Fund dollars.

² This indicator was a new performance indicator in FY 1998-99. It did not appear under Act 19 of 1998 and had no FY 1998-99 performance standard.

GENERAL PERFORMANCE INFORMATION: LOUISIANA EDUCATION QUALITY TRUST FUND INVESTMENTS

PERFORMANCE INDICATOR	PRIOR YEAR ACTUAL FY 1994-95	PRIOR YEAR ACTUAL FY 1995-96	PRIOR YEAR ACTUAL FY 1996-97	PRIOR YEAR ACTUAL FY 1997-98	PRIOR YEAR ACTUAL FY 1998-99
Fiscal yearend annual yield return on Louisiana Education Quality Trust Fund (LEQTF) investments (expressed as a total return percentage)	11.13%	5.79%	10.5%	11.4%	4.8%
LEQTF investment income (in \$ millions)	\$52.8	\$51.3	\$54.2	\$68.4	\$77.9
LEQTF Permanent Fund fair market value (in \$ millions) ¹	\$704.5	\$713.7	\$760.2	\$817.1	\$818.0

¹ Fair market value is expressed as market price of assets as of June 30 yearend.

RESOURCE ALLOCATION FOR THE PROGRAM

	ACTUAL 1998-1999	ACT 10 1999- 2000	EXISTING 1999- 2000	CONTINUATION 2000 - 2001	RECOMMENDED 2000 - 2001	RECOMMENDED OVER/(UNDER) EXISTING
MEANS OF FINANCING:						
STATE GENERAL FUND (Direct)	\$129,973	\$129,973	\$129,973	\$152,612	\$220,641	\$90,668
STATE GENERAL FUND BY:						
Interagency Transfers	0	32,000	32,000	32,000	32,000	0
Fees & Self-gen. Revenues	370,385	407,420	407,420	425,026	407,420	0
Statutory Dedications	525,957	705,700	705,700	705,700	705,700	0
Interim Emergency Board	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
TOTAL MEANS OF FINANCING	\$1,026,315	\$1,275,093	\$1,275,093	\$1,315,338	\$1,365,761	\$90,668
EXPENDITURES & REQUEST:						
Salaries	\$275,814	\$322,948	\$322,948	\$337,518	\$365,087	\$42,139
Other Compensation	6,263	4,000	4,000	4,000	4,000	0
Related Benefits	35,743	35,742	35,742	36,325	63,177	27,435
Total Operating Expenses	27,007	50,827	50,827	58,313	30,515	(20,312)
Professional Services	1,367	0	0	0	0	0
Total Other Charges	680,121	861,576	861,576	879,182	902,982	41,406
Total Acq. & Major Repairs	0	0	0	0	0	0
TOTAL EXPENDITURES AND REQUEST	\$1,026,315	\$1,275,093	\$1,275,093	\$1,315,338	\$1,365,761	\$90,668
AUTHORIZED FULL-TIME EQUIVALENTS: Classified	7	7	7	7	7	0
Unclassified	1	1	1	1	1	0
TOTAL	8	8	8	8	8	0

SOURCE OF FUNDING

This program is funded with State General Fund, Interagency Transfers, Fees and Self-generated Revenues and Statutory Dedications. Interagency Transfers are derived from various state agencies for their share of the cost in investing funds. Fees and Self-generated Revenues are derived from fees collected for preliminary review and final approval of bond applications; from implementation of the securities lending program, and from the Local Government Investment Pool revenue. Statutory Dedications are derived from the Louisiana Quality Education Support Fund (8 (g)). (Per R.S. 39:32B.(8), see table below for a listing of expenditures out of each Statutory Dedicated Fund.)

ACTUAL	ACT 10	EXISTING	CONTINUATION	RECOMMENDED	OVER/(UNDER)
1998-1999	1999- 2000	1999- 2000	2000 - 2001	2000 - 2001	EXISTING
\$525,957	\$705,700	\$705,700	\$705,700	\$705,700	\$0

ANALYSIS OF RECOMMENDATION

GENERAL FUND	TOTAL	T.O.	DESCRIPTION
\$129,973	\$1,275,093	8	ACT 10 FISCAL YEAR 1999-2000
			BA-7 TRANSACTIONS:
\$0	\$0	0	None
\$129,973	\$1,275,093	8	EXISTING OPERATING BUDGET – December 3, 1999
\$9,524	\$9,524	0	Annualization of FY 1999-2000 Classified State Employees Merit Increase
\$7,049	\$7,049	0	Classified State Employees Merit Increases for FY 2000-2001
\$42,008	\$42,008	0	Salary Base Adjustment
(\$10,648)	(\$10,648)	0	Attrition Adjustment
(\$42,139)	(\$42,139)	0	Salary Funding from Other Line Items
\$24,074	\$24,074	0	Other Adjustments - Additional Telecommunications facilities
\$10,300	\$10,300	0	Other Adjustments - Additional funding for La. Educational Trust Collateral Monitoring
\$13,500	\$13,500	0	Other Adjustments - Increase in funding for electronic Financial monitoring
\$19,000	\$19,000	0	Other Adjustments - Funding provided for additional required Related Benefits expenses
\$18,000	\$18,000	0	Other Adjustments - Funding adjustment for Operational costs
\$220,641	\$1,365,761	8	TOTAL RECOMMENDED
\$0	\$0	0	LESS GOVERNOR'S SUPPLEMENTARY RECOMMENDATIONS
\$220,641	\$1,365,761	8	BASE EXECUTIVE BUDGET FISCAL YEAR 2000-2001
			SUPPLEMENTARY RECOMMENDATIONS CONTINGENT ON SALES TAX RENEWAL:
\$0	\$0	0	None
\$0	\$0	0	TOTAL SUPPLEMENTARY RECOMMENDATIONS CONTINGENT ON SALES TAX RENEWAL

			SUPPLEMENTARY RECOMMENDATIONS CONTINGENT ON NEW REVENUE:
\$0	\$0	0	None

\$0	\$0	0	TOTAL SUPPLEMENTARY RECOMMENDATIONS CONTINGENT ON NEW REVENUE
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\$220,641	\$1,365,761	8	GRAND TOTAL RECOMMENDED
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The total means of financing for this program is recommended at 107.1% of the existing operating budget. It represents 98.8% of the total request (\$1,381,921) for this program. Increases recommended for this Program are basically attributable to additional Operational costs.

PROFESSIONAL SERVICES

This Program does not have funding for Professional Services for Fiscal Year 2000-2001.

OTHER CHARGES

\$74,800	Investment management access to "live data" on securities and equities market for up to date investment decisions
\$79,757	Custodial services for the Louisiana Education Quality Trust Fund 8(g)
\$705,700	Equity Investment Management Program for the La. Education Quality Trust Fund, including costs for an investment manager, an investment consultant, and performance measurement services associated with the equity investment program
\$17,606	Market valuation of securities held by the Treasury as collateral for deposits in state banks and to provide market valuations for securities held in investment portfolios
\$10,300	Monitoring collateral funds of certain Statutory Dedications
\$13,500	Security and Exchange data monitoring

\$901,663	SUB-TOTAL OTHER CHARGES
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Interagency Transfers:

\$400	Division of Administration for Computer Services
\$919	Civil Service Fees

\$1,319	SUB-TOTAL INTERAGENCY TRANSFERS
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\$902,982	TOTAL OTHER CHARGES
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ACQUISITIONS AND MAJOR REPAIRS

This Program does not have funding for Acquisitions and Major Repairs for Fiscal Year 2000-2001.